

**Testimony of  
U.S. Trade Representative Charlene Barshefsky  
Renewal of Fast Track Authority  
Senate Finance Committee  
September 17, 1997**

Mr. Chairman and Members of the Committee, I want to thank you for the opportunity to appear before you today to address an issue that is vital to the future of American farmers, businesses, and workers, as well as our position as a leader in the global economy: that is, approval of the Administration's proposal to renew fast track and the President's tariff proclamation authority under the "Export Expansion and Reciprocal Trade Agreements Act of 1997." Mr. Chairman, if enacted, the President's proposal would renew more than 60 years of cooperation between the Congress and the Executive Branch in the negotiation and implementation of market-opening trade agreements for the benefit of American workers and companies.

What is at stake in your consideration of this proposal is nothing less than whether the United States will continue to be at the forefront of nations seeking the reduction of trade barriers and the expansion of more open, equitable and reciprocal trading practices throughout the world. As the President said last week, the question before you is whether we are going to lead the way or follow. This is not the time to shrink from the future, but to seize the opportunities it holds.

The President is right. Today, this country is at the pinnacle of its influence. Our economy is the strongest in the world. In the last four and one half years, the United States has once again become the world's number one exporter, the world's largest manufacturer of automobiles, the world's premier agricultural exporter, and the world's leading producer of semiconductors. From the farms of the Midwest to the high-tech firms of California and Massachusetts, businesses are growing, unemployment is declining and inflation is under control. America leads the world in a very competitive global marketplace. Our economy is the envy of our trading partners.

Today, international trade is an increasingly vital component of our economic strength at home and leadership abroad. Exports are more important in our economy than ever. Since 1993, more than a third of our economic growth has come directly from exports, and the number of export-related jobs has increased by 1.7 million. A total of some 11.5 million U.S. jobs depend on exports, and these jobs pay an average of 15% more than non-trade-related jobs. Since 1985, U.S. exports have roughly tripled from about \$300 billion to an expected \$900 billion this year.

But, we cannot rest on our past accomplishments. We must find new markets for our goods and services in order to help our economy to maintain strong growth. To frame our economic challenge clearly: the United States represents four percent of the world's population, yet our share of global income is 20%. How are we going to maintain our enviable position? We must sell to the more than 96% of the consumers that live outside our borders, which requires that we further open foreign markets to our goods and services. We need fast track if our economy is to stay on the fast track.

## **The Importance of Fast Track**

Fast track is critical to increase access to foreign markets and shift trade conditions in our favor. Fast track sends a strong signal to our trading partners. It tells them that when the President negotiates a trade agreement, he has the confidence of the Congress behind him. It also indicates that the United States is serious about reaching agreements that will reduce market barriers and trade distortions.

This proposal reactivates a partnership between the President and the Congress that dates back over six decades. Recognizing that the high protective U.S. tariff walls it established in 1930 had only served to deepen the Depression, Congress four years later enacted the first reciprocal trade agreements act. In that act, Congress gave the President authority to negotiate mutual tariff reductions with our trading partners. Congress renewed that authority repeatedly over the years, and successive Presidents used the authority to dramatically reduce tariff barriers around the world.

“Fast track” was first put in place under the Ford Administration in 1974. Under fast track the Congress and the President work together, ensuring that the United States can effectively negotiate away foreign tariff barriers as well as non-tariff barriers -- such as quotas, protectionist product standards, and subsidies -- which foreign governments have increasingly substituted for tariffs to exclude U.S. products. It worked well for 20 years, a period over which every President had fast track authority with bipartisan support. Fast track lapsed along with most of the President’s tariff reduction authority three years ago.

With this legislation, we are seeking to reactivate the process by which certain trade agreements can come back to the Congress for an up or down vote without amendment. We are not seeking Congress’ approval of a particular trade agreement. Congress retains the last word.

## **Dangers of Inaction**

There are serious and immediate consequences if we do not renew fast track. Increasingly over the past few years, major trade agreements have been negotiated without our participation. Our competitors are determined, sophisticated, strategic and focused. In every region of the world, but particularly Latin America and Asia, the two fastest growing regions of the world, governments are pursuing strategic trade policies and, in some cases, preferential trade arrangements. They are forming relationships around us, rather than with us, and they are creating new exclusive trade alliances to the detriment of U.S. interests. I can assure you that our trading partners are not waiting for us to pass a bill.

A significant number of bilateral and regional trade agreements are already operating here in the Western Hemisphere. The United States is party to only one. In fact, most U.S. trading partners in the hemisphere have been actively forging closer ties with neighboring countries. In Latin America and Asia alone, over 20 such agreements have been negotiated since 1992 -- all without us.

Argentina, Brazil, Paraguay, and Uruguay have formed a common market, MERCOSUR, which has

a GDP of approximately \$1 trillion and ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and encompasses a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with a number of Andean countries (Colombia, Venezuela), as well as countries within the Caribbean Basin. There are recent reports that Canada is also in discussions with MERCOSUR. And, the EU and MERCOSUR already have plans to conclude a reciprocal trade agreement by 1999.

Furthermore, the nations of the Andean Community have started meeting with member nations of CARICOM and the Central American Common Market to discuss negotiation of free trade agreements.

And, Chile, with one of South America's leading economies, has signed trade agreements with Bolivia, Colombia, Ecuador, Mexico, Venezuela, Canada and the MERCOSUR states. Indeed, Chile has preferential trading relationships with every major trading country in our hemisphere but one -- the United States.

In South Asia, the seven members of the South Asian Association for Regional Cooperation (SARC) -- India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka, and the Maldives -- have set 2001 as the target for the creation of a free trade area. SARC now represents only about 1 percent of world trade, but it encompasses roughly 20 percent of the world's population. This will increasingly be an important market for U.S. goods and services

Access to markets in such developing nations is especially important to America's economic future, particularly those in Asia and Latin America which are projected to grow at rates as much as three times the U.S. growth rate. As noted, more than 96 percent of the world's consumers reside outside the United States. Of the more than 30 million people who join the world's middle class annually, an estimated three quarters are found in emerging markets and other low and middle-income countries. Latin America alone, if current trends continue, will exceed both Japan and Western Europe combined as an export market for U.S. goods by the year 2010. Already, Latin America is our fastest growing export market, even though the tariff barriers within the region average three to four times the average U.S. tariff. Similarly, the Asian Pacific Rim has been our second fastest growing export market in recent years, but its market access barriers are also generally higher than U.S. barriers. The elimination of these inequities is in America's fundamental interest, as we have the most competitive economy in the world.

Our lack of fast track procedures also disadvantages us in comparison with our industrialized competitors. As mentioned, Canada recently signed a new trade agreement with Chile, giving Canadian exporters substantial advantages over their U.S. counterparts. Perhaps even more disturbing, the EU, already the world's largest trading bloc, is poised for major expansion in the next few years. The EU has secured for its exporters significant advantages in the transition economies of Central and Eastern Europe. As noted, the EU also has begun a process aimed at reaching a free trade agreement with MERCOSUR and one with Mexico. It has also concluded a framework agreement with Chile which is expected to lead to a free trade agreement by 1999 based on recent

reports.

China has targeted Mexico, Argentina, Brazil, Chile and Venezuela as “strategic priorities” in Latin America. China wants to enhance commercial ties and ensure that key Latin countries are receptive to its broader global agenda as a rising power, both in the WTO and other fora. The Chinese leadership has undertaken an unprecedented number of trips to Latin America in the last two years, and Latin America is China’s second fastest growing export market.

Japan has undertaken high level efforts throughout Asia and Latin America to enhance commercial ties through investment and financial initiatives. The Prime Minister of Japan recently visited Latin America seeking closer commercial ties and a greater Japanese commercial presence in all respects.

The consequences of agreements being reached without us are not just theoretical; they are quite real. Many U.S. firms are suffering from the competitive disadvantage caused by preferential agreements that do not include us. Our companies are losing export opportunities. Our past efforts to level the playing field will prove futile over the long-term if we begin to cede this ground to our competitors. Examples abound:

- U.S. fabric producer, Quaker Fabric, recently lost a \$1.8 million a year sale in Chile to a Mexican competitor because of an 11% tariff preference favoring Mexican producers.
- U.S. apple producers are at risk in their Latin American markets due to Chile’s preferential tariff free, or near tariff-free, access to MERCOSUR, Venezuela, Colombia, and other South American markets as a result of the FTAs it has been negotiated (six since 1991). U.S. producers have to absorb the non-preferential tariff cost to enter these growing markets.
- U.S. corn producers are facing competition in Chile from Argentinean producers who enjoy a 3.3% tariff preference, which will grow to 11% over time.
- Chilean fresh fruit pays a 2 percent duty when entering Venezuela (due to the Chile-Venezuela FTA), whereas U.S. producers pay a 15 percent tariff. The U.S. Embassy estimates that U.S. market share would grow from its current 39 percent to 67 percent if U.S. producers had equivalent access to the Venezuelan market.

MERCOSUR comprises the largest market in Latin America (200 million people and a GDP of approximately \$1 trillion). In the context of negotiating this customs union, Argentina, Paraguay and Uruguay raised their tariff on imported computer products to accommodate Brazil’s interests. The net result was that the common external tariff is significantly higher (from zero to 14 percent *ad valorem* in the case of Argentina, the second largest economy in South America) than the original tariff on these items in Argentina and others.

The United States can only redress these growing trade setbacks by concluding similar bilateral and regional agreements, as well as negotiating new multilateral agreements that level the trade playing

field. But no such agreements are likely as long as our trading partners believe that any agreement the President negotiates will also have to be separately negotiated with the Congress.

Fast track, however, is about more than economics. It is about American leadership. As the President said last week, fast track “is about whether other countries will continue to look to the United States to lead to a future of peace and freedom and prosperity; about whether the world will be growing together instead of coming apart; about whether our economic ties will lead to cultural ties and ties of partnership, or whether we will be viewed as somehow withdrawn from the world, not interested in leading it, and therefore, not nearly as influential as we might otherwise be for the causes in which we so deeply believe.”

Sidelining ourselves at this critical juncture will have repercussions that will be far more than economic. Economic prosperity contributes to economic security, which in turn supports democracy and stability. We are at the pinnacle of our influence and we should use that influence to shape international economic rules and transmit our fundamental values.

### **The Uses of Fast Track**

The absence of fast track does not only mean that we cannot match our competitors when they enter into preferential trade arrangements. It also prevents us from achieving our own goals. There are three major areas of pressing concern which require fast track now.

First, fast track would allow us to complete the built-in agenda of the World Trade Organization: that is, conclusion of the major trade negotiations that were deferred at the end of the Uruguay Round and participation in negotiations mandated by the Uruguay Round agreements in areas ranging from rules of origin to services. This year, we resume negotiations to expand and improve the government procurement agreement. Next year, we begin again the negotiations on intellectual property rights, followed by agriculture negotiations in 1999, and then services negotiations. We seek enhanced access to global markets in these areas, and the stakes are very high. The world’s government procurement market will be a trillion-dollar market over the next decade and bringing more countries into the agreement will be critical. Agriculture and services represent another almost \$2 trillion market, with agriculture representing \$600 billion globally; and services \$1.2 trillion. We must have fast track authority to enter these various talks or countries will not put meaningful offers on the table.

Second, fast track would enable us to pursue market-opening initiatives in sectors where the United States either leads the world or is a powerful competitor, and where there is extraordinary potential for growth. A good example of what can be achieved in this area is the recently concluded Information Technology Agreement (ITA), the United States and 43 other nations agreed to the reduction and eventual elimination of tariffs on information technology and electronic products, including semiconductors, computers, telecommunications equipment, faxes, phones, and integrated circuits. This is an extraordinarily favorable agreement for the United States, since we are a major exporter of these products and our applicable tariffs were already

quite low. Because other countries generally maintained substantially higher duties, this agreement provides what amounts to a \$5 billion tax cut for the U.S., money that can be used for research and market development, creating new business opportunities and jobs for Americans.

In fact, the agreement has proven so successful that we already have a consensus among our trading partners to pursue an "ITA-II" -- in which we are seeking to expand the scope of products covered by the agreement, address non-tariff barriers in addition to tariff barriers, and increase access to the Information Superhighway.

We also are considering other sectors in which the United States is very competitive, but in which global barriers tend to be high. In particular, we are focusing on trade in chemicals, energy equipment and services, environmental technology and services, medical equipment and services, and wood and paper products. Within APEC, the United States and its Pacific Rim trading partners are working together to identify a number of areas that may be the subject of accelerated market opening discussions. Renewal of fast track would show APEC that the United States intends to fully take part in the negotiations and conclude key agreements.

Third, fast track is essential if we are to negotiate more comprehensive market access agreements with individual countries, as well as on a regional basis. This Administration, consistent with its predecessors, has identified Chile as a promising candidate for a comprehensive trade agreement. Chile appears in all respects to be prepared to enter into agreements with us that achieve our economic objectives, as well as our goals with respect to labor and the environment. Chile also symbolizes our commitment to proceed towards the conclusion of the Free Trade Agreement of the Americas (FTAA) by 2005.

Prior to the pursuit of other specific free-trade arrangements, the Administration would clearly define our negotiating objectives and consult closely with Congress.

### **The Fast Track Legislation**

Fast Track is about forging an American consensus on trade and negotiating with our trading partners from a position of strength and unity. As many members of this Committee know, the Administration spent significant time consulting with members in both Houses and of both parties to try to develop a proposal that would reflect the views of the American people. The consultations were invaluable in shaping this proposal, and I thank the members of this Committee and their staffs for their significant contribution.

Let me now turn to the specifics of the President's proposal.

The proposal first sets out "overall" and "principal" trade negotiating objectives for the President. The "overall" objectives call on U.S. negotiators (1) to obtain more open, equitable, and reciprocal market access; (2) to obtain the reduction or elimination of barriers and other trade-distorting policies and practices that are directly related to trade and reduce market opportunities for U.S. exports or

distort U.S. trade; (3) to further strengthen the system of international trading disciplines and procedures; (4) to foster economic growth, raise living standards, and promote full employment in the United States and to enhance the global economy; and (5) to address those aspects of foreign government policies and practices regarding labor, the environment, and other matters which are directly related to trade and decrease market opportunities for United States exports or distort United States trade.

The “principal” objectives specify that U.S. negotiators should seek (1) to reduce or eliminate trade barriers, and foreign government policies and practices directly related to trade that decrease market access for U.S. exports or that distort U.S. trade; (2) to reduce foreign government barriers that discriminate against or impose unreasonable regulatory barriers on U.S. service providers; (3) to reduce unreasonable barriers to U.S. foreign investment; (4) to obtain adequate and effective protection for U.S. intellectual property rights and increased access to foreign markets for U.S. businesses that rely on intellectual property; (5) to make the proceedings of international trade bodies more open to public view; (6) to secure fairer and more open conditions of trade for U.S. agricultural products; and (7) to promote through multilateral institutions worker rights and sustainable development.

These objectives and guidance reflect the President’s three primary concerns underlying the proposal. The President has made clear that his first consideration in proposing this legislation is the expansion of American trade opportunities abroad and the tearing down of barriers impeding U.S. access to foreign markets. However, the President also has made clear that we have an obligation to promote the rights of workers and the environment. Our commitment to worker rights and the environment reflects long-standing, fundamental values of the United States. The proposal’s objectives properly balance the need to open markets with the attention these vital issues deserve.

The proposal next provides that the President may enter into certain agreements regarding tariffs and implement them by proclamation. For example, the proposal would re-establish the President’s traditional proclamation authority, under which he can reduce U.S. duties up to 50 percent and eliminate duties of 5 percent *ad valorem* or less. This authority dates back to 1934. The proposal adds a new provision that would allow the President to harmonize or eliminate tariffs in connection with reciprocal tariff agreements in particular sectors, as we did in the ITA, as well as to carry out reciprocal tariff elimination agreements consistent with WTO rules.

In order for an agreement to qualify for fast-track treatment under the bill, the President must comply with extensive notice and consultation requirements. These provisions enable the Congress to set priorities, provide advice, and exercise oversight at all stages of the negotiations. They ensure that Congressional views will be reflected both in any final agreement and in the manner in which an agreement is carried out.

The bill expands upon the notice and consultation requirements included in earlier trade acts. For example, the President must provide notice to Congress before initiating negotiations, and he must consult with Congress prior to concluding an agreement. Members of Congress and their staff are

to be named as cleared advisers with respect to on-going negotiations. These Congressional advisers will be apprised of all critical phases of the negotiations, and they will have direct input into our strategy and offers. When negotiations near completion, the President must notify Congress of his intention to enter into an agreement and, once the agreement is signed, the President must describe to Congress how he intends to implement the agreement. Finally, the President and the Congress are to receive advice on any proposed agreement from the International Trade Commission.

To strengthen these provisions, we have added further consultation requirements. The bill mandates that, prior to entering into negotiations, the President must describe his specific negotiating objectives. The President is required to consult with Congress both before and after negotiations begin. In addition, the President is required to inform Congress of any other agreements he intends to conclude with the country or countries in question in addition to the trade agreement itself. The President must also state whether the fast track agreement will require additional implementing legislation that can be enacted only outside the fast track process.

Moreover, Congress must be satisfied that the President has met his consultation obligations. Under the proposal, if Congress finds that the President has not done so, an expedited procedure is available for Congress to withdraw fast track procedures.

The proposal also builds on existing provisions to ensure that the public is informed of trade negotiations and that a mechanism is available for ensuring that the public can make its views known to U.S. negotiators. In addition, the proposal calls for the President and Congress to receive advice from officially-designated advisory committees covering the full range of sectors and policy matters, including manufactured goods, agricultural products, services, intergovernmental matters, investment, intellectual property, labor, and environmental matters. These provisions demonstrate the Administration's hope that Americans will not only understand our trade agenda, but take an active part in formulating it.

Under well-established practice, the President collaborates with the Congress in drafting fast track implementing legislation. Such legislation is subject to informal public hearings and "mark-ups" by all Congressional committees of jurisdiction before its introduction. Under the President's proposal, provisions may be included in such legislation only if they are necessary or appropriate to implement an agreement and are related to trade. This language was designed to provide the President and Congress with sufficient flexibility to modify domestic law to achieve our trade objectives while ensuring that implementing bills will retain their focus on trade issues.

The President's proposal seeks this authority until his term is completed, with the possibility for an extension until 2005, subject to disapproval by Congress. This provides Congress and the next President the opportunity to ensure that the consensus that we hope can be achieved with this fast track proposal endures during the first term of the next President.

## **Conclusion**



Mr. Chairman, if enacted, the President's proposal would renew more than 60 years of cooperation between the Congress and the Executive Branch in the negotiation and implementation of market-opening trade agreements for the benefit of American workers and companies. We have had a bipartisan consensus on the importance of expanding trade for the American economy and creating a trading system as a part of America's leadership for peace and freedom. It is now clearly more important than ever that we build a new consensus on the framework for the global economy of the 21st century. I am committed to working with the Congress to make sure that this legislation receives the full, bipartisan support it deserves and the American people expect.

As the President Clinton said last week: "Walking away from this opportunity will not create a single job. No one suggests we should throw up greater barriers in our own marketplace. Walking away from this opportunity will only leave inequalities in place -- inequalities that do not work to the advantage of either American businesses or American workers." The world is on a very fast track to the 21st century. America must lead in shaping our future.